CITY OF CENTER LINE FIVE YEAR FINANCIAL FORECAST REPORT

COVERING FISCAL YEARS 2015 THROUGH 2019

PRESENTED TO CITY COUNCIL FEBRUARY 3, 2014

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FISCAL YEARS 2015 THROUGH 2019

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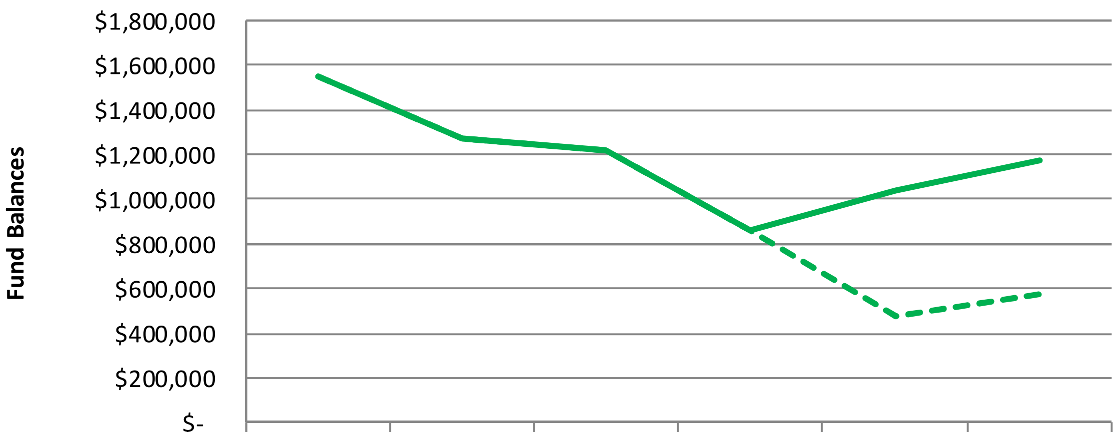
EXECUTIVE SUMMARY

Over the next five fiscal years, the City of Center Line will continue to have available the funds required to provide core services to the City's residents.

Based on recommended budget goals as well as fund balance practices previously reviewed with the City Council, the following chart forecasts the City's fund balance in the General Fund for fiscal years 2014 through 2019:

Forecasted General Fund Balances
2014 through 2019



	2014	2015	2016	2017	2018	2019
Fund Balance	$1,550,888	$1,271,917	$1,216,934	$858,044	$1,043,756	$1,171,354
FB w/o OPEB	$1,550,888	$1,271,917	$1,216,934	$858,044	$473,105	$572,170

Major factors contributing to the city's strong forecasted financial position over the next five years are as follows:

POSITIVE FACTORS

- ECONOMIC GROWTH WILL DIRECTLY INCREASE STATE SHARED REVENUES
- ECONOMIC GROWTH WILL STABILIZE FUTURE TAX REVENUES, ENDING THE CITY'S FIVE YEAR-LONG TAX REVENUE SLIDE
- FUNDING THE CITY'S RETIREMENT HEALTHCARE TRUST TODAY WILL LEAD TO STABLE FUND BALANCES IN FUTURE YEARS

NEGATIVE FACTORS

- PERMANENT LOSS OF TAX REVENUES DUE TO STATE TAX LAWS WILL IMPAIR THE CITY'S FINANCIAL POSITION
- SOARING LEGACY COSTS, DESPITE ADDRESSING THIS ISSUE IN THE LONG-TERM, WILL SIGNIFICANTLY IMPAIR THE CITY BUDGET OVER THE NEXT FIVE YEARS

The City of Center Line Five Year Financial Forecast Report was created by referencing key economic indicators provided within the *Economic Outlook and Revenue Estimates for Michigan for FY2013-14 through FY2015-16* as published by the Michigan House Fiscal Agency in January 2014 as well as *SEMCOG's Fiscal Capacity Outlook, 2014-2016*, which was published in October of 2013.

FORECASTED EXPECTATIONS

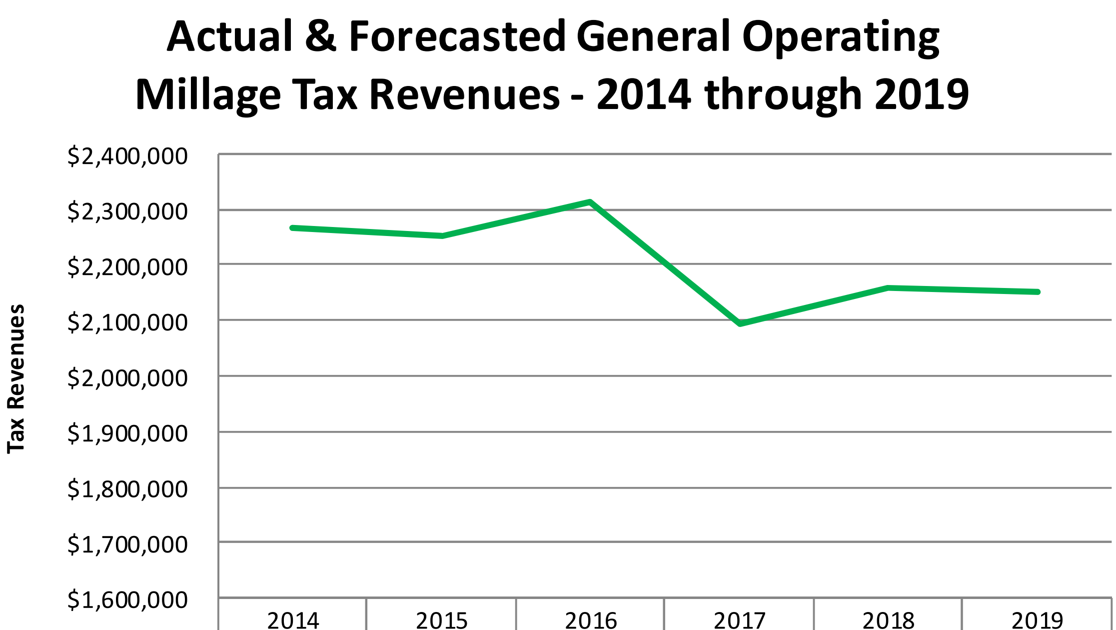
TAX REVENUES – GENERAL OPERATING MILLAGE

In tax year 2013 (fiscal year 2014), the City of Center Line lost more percentage of taxable value (13.3%) than any community in Macomb County. When coupled with over a decade of consecutive taxable value losses, the impact on the city's finances has been significant, but not insurmountable. As Macomb County Equalization's preliminary figures show and economic reports confirm, Center Line, the state of Michigan, and the nation has begun a fragile economic recovery.

For fiscal years 2015 through 2018, the city can expect increasing assessed values and taxable values capped at the projected change in consumers price index (CPI) of between 1.3 to 1.8 percent annually, with a tapering off to reflect a projected economic slowdown in fiscal year 2019 to approximately a 1 percent change.

Two significant factors will affect tax revenues. Current Michigan tax law will prevent Center Line from collecting tax revenues in excess of the change in CPI or 5% annually, whichever is smaller. Additionally, the city has also forecasted losses to taxable revenue in fiscal years 2015 and 2017 to account for the loss of revenue due to enacted and pending Personal Property Tax (PPT) Reform. PPT Reform is discussed in greater detail in the *Significant Factors* section of this forecast.

The chart below outlines forecasted General Operating millage tax revenues, net of all significant factors as discussed previously:



	2014	2015	2016	2017	2018	2019
Tax Revenue	$2,265,126	$2,252,961	$2,313,618	$2,093,553	$2,159,209	$2,152,064

FORECASTED EXPECTATIONS

TAX REVENUES – PUBLIC SAFETY OPERATING MILLAGE

In August 2011, the residents of the City of Center Line passed the Public Safety Operating Millage with an approval rate of nearly 80% of the vote. The 7.5 mill annual levy allowed the city to continue to operate the Public Safety Department in its current capacity. Though the millage originally raised $1,200,000, aforementioned declines in taxable value decreased the tax revenues raised from this operating millage.

The chart below shows forecasted revenues as well as the forecasted percentage of operating expenditures covered by the millage. The remaining funds required to operate the Public Safety Department are provided by a transfer from the General Fund.

Forecasted Public Safety Millage Revenues and % of Operating Expenditures Covered 2014 through 2019

	2014	2015	2016	2017	2018	2019
Total Revenues	$1,148,029	$1,141,806	$1,172,832	$1,060,271	$1,093,853	$1,090,199
% Op Exp Covered	50.98%	48.66%	49.13%	43.65%	44.32%	44.17%

The projected shortfall between revenues raised and operating expenditures for the forecasted period will be entirely covered by the General Fund's operating millage. The amounts forecasted to be required are as follows:

2014	$	1,065,537
2015		1,166,943
2016		1,177,047
2017		1,331,252
2018		1,336,886
2019		1,340,370
	$	**7,418,035**

In the current fiscal year and throughout the five year forecasted period, the City's General Fund will contribute just over $7.4 million to the Public Safety Fund. The average annual contribution of $1.23 million over that period represents approximately 55 percent of annual general operating tax revenues.

FORECASTED EXPECTATIONS

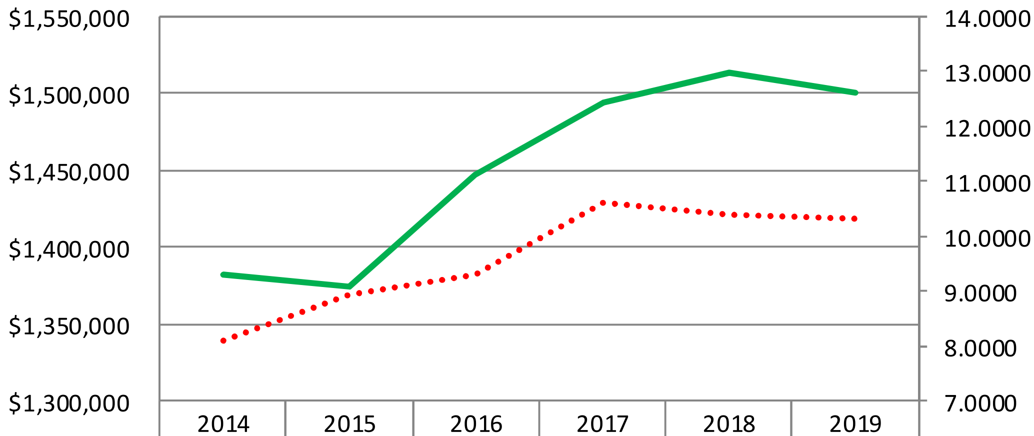
TAX REVENUES AND MILL RATES – PUBLIC ACT 345

Each year, the Center Line Police and Fire Retirement System is funded by a variable rate millage which is levied based upon the retirement costs associated with the city's retired public safety officers as established by Public Act 345 of 1937.

Like all legacy costs in the city, PA 345 retirement costs are projected to increase. The projected increase for PA 345 costs over the next five years is 9%.

The following chart shows the projected millage rates as well as projected funds required in order to fund all retirement costs for the Center Line Police and Fire Retirement System through 2019.

Actual & Forecasted Public Act 345 Covered Expenses & Millage Rates - 2014 Through 2019



	2014	2015	2016	2017	2018	2019
Expenses Covered	$1,382,307	$1,374,541	$1,447,414	$1,493,952	$1,513,520	$1,500,045
Millage Rate	8.1065	8.9297	9.3146	10.6031	10.3980	10.3092

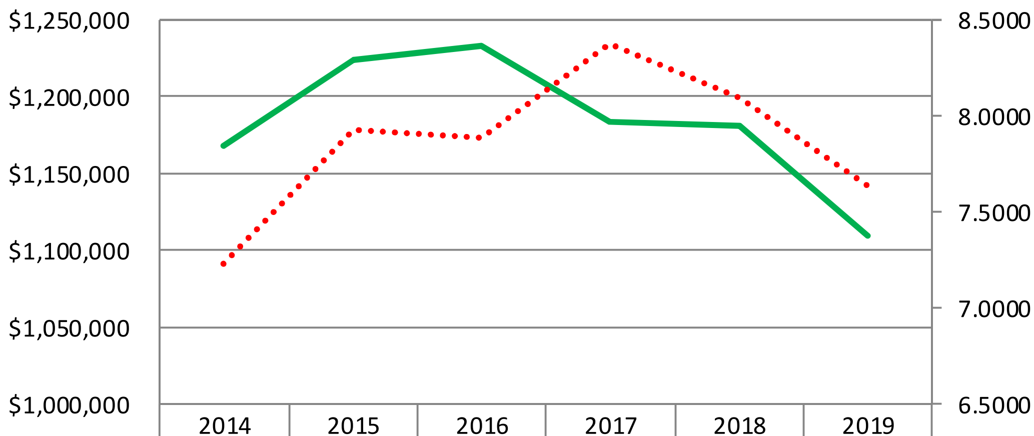
FORECASTED EXPECTATIONS

TAX REVENUES AND MILL RATES – GENERAL OBLIGATION DEBT

Each year, the city pays for all general obligation debt as approved by previous elections of the voters of Center Line by levying a general obligation debt millage. The millage levies the funds required to pay all principal and interest payments due within the current fiscal year.

Unlike many forecasted figures in this report, the amount of current and future fiscal year debt service is known provided that the assumption is made that no further general obligation debt service is voted upon and approved by the voters of Center Line. Given that assumption, the following chart tracks debt service payments required and the projected millage rate based upon projected taxable values over the forecasted period.

Covered Debt Service Expenses & Millage Rates
2014 Through 2019



	2014	2015	2016	2017	2018	2019
Expenses Covered	$1,168,242	$1,224,495	$1,233,538	$1,184,025	$1,181,058	$1,109,326
Millage Rate	7.2330	7.9235	7.8882	8.3754	8.0979	7.6316

Because of a stabilizing taxable value base, millage rates will also remain stable over the course of the forecasted period. Though it falls just outside the five year fiscal period being forecasted, the majority of the city's general obligation debt is scheduled to mature (be paid in full or paid off) by fiscal year 2020. This will result in a significant drop in the debt service millage which will result in a lower overall tax bill for the residents of the city.

Finally, as required by law, the City of Center Line remains and is projected over the course of the five year fiscal period to continue to remain well under the legal debt limit.

FORECASTED EXPECTATIONS

OVERALL HISTORICAL AND FORECASTED TAXABLE VALUES AND CITY MILL RATES

While the last ten years have been incredibly challenging for the city, the next five years will offer a period of stabilization, which will allow the city to collect the revenues it requires in order to continue to provide core services at the high levels that residents expect.

The forecasted taxable values shown on the bottom of this page reflect the changes to Michigan tax law as a result of personal property tax reform, known as PPT reform. While the city expects to see rises in taxable values within the real property and unaffected personal property groups, PPT reform will create lost taxable value and thus lost tax revenues in fiscal year 2015 and will also likely affect fiscal year 2017 assuming that a state-wide referendum on PPT reform is passed in August 2014.

This is a significant factor as the city's personal property tax roll comprises of just under 20 percent of the city's total tax roll. This topic is discussed further in the *Significant Factors* section of this report.

Please note that projected millage rates and taxable values are forecasted figures and should not in any way be considered or construed as a promise of future property value nor a promise of future millage rates levied. This information is presented as a series of forecasted figures, which are based upon many variables for which there is uncertainty and as such, these values are subject to substantial change should the forecasted variables based on conditions projected today not come to fruition in subsequent fiscal years.

Total Forecasted Taxable Value and City Mills Levied - 2015 Through 2019

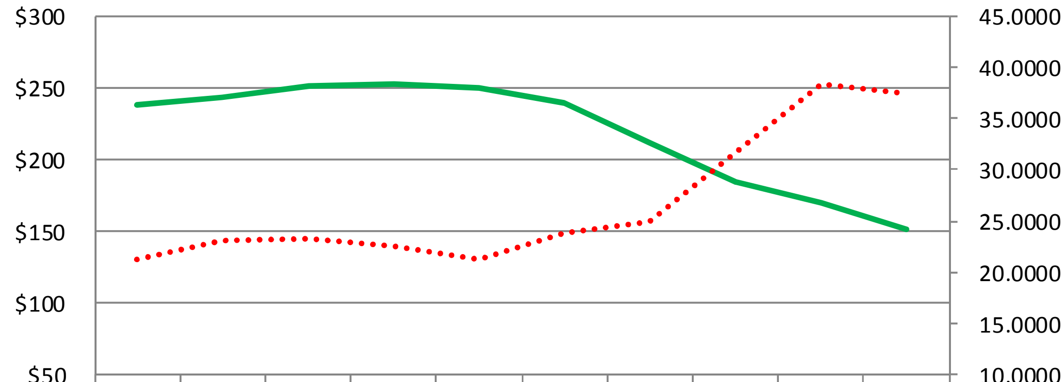
	2015	2016	2017	2018	2019
Taxable Value	$150,948,039	$154,590,677	$140,289,643	$144,747,850	$144,271,556
Total Mills	39.0162	39.3658	41.1415	40.6589	40.1038

FORECASTED EXPECTATIONS

OVERALL HISTORICAL AND FORECASTED TAXABLE VALUES AND CITY MILL RATES - CONCLUDED

Finally, to provide historical perspective on the forecasted values on the previous page, the following chart displays taxable values and city millage rates levied over the past ten fiscal years.

Ten Year Historical Taxable Values (in Millions) and City Mills Levied - 2015 Through 2019



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Taxable Value	$238	$243	$251	$253	$250	$240	$212	$184	$170	$152
Total Mills	21.2997	23.1496	23.2657	22.6223	21.2329	23.8266	24.9025	31.7022	38.3328	37.5025

Source: City of Center Line Comprehensive Annual Financial Report (CAFR), June 30, 2013

** Current taxable value as of the date of publication, subject to change.*

FORECASTED EXPECTATIONS

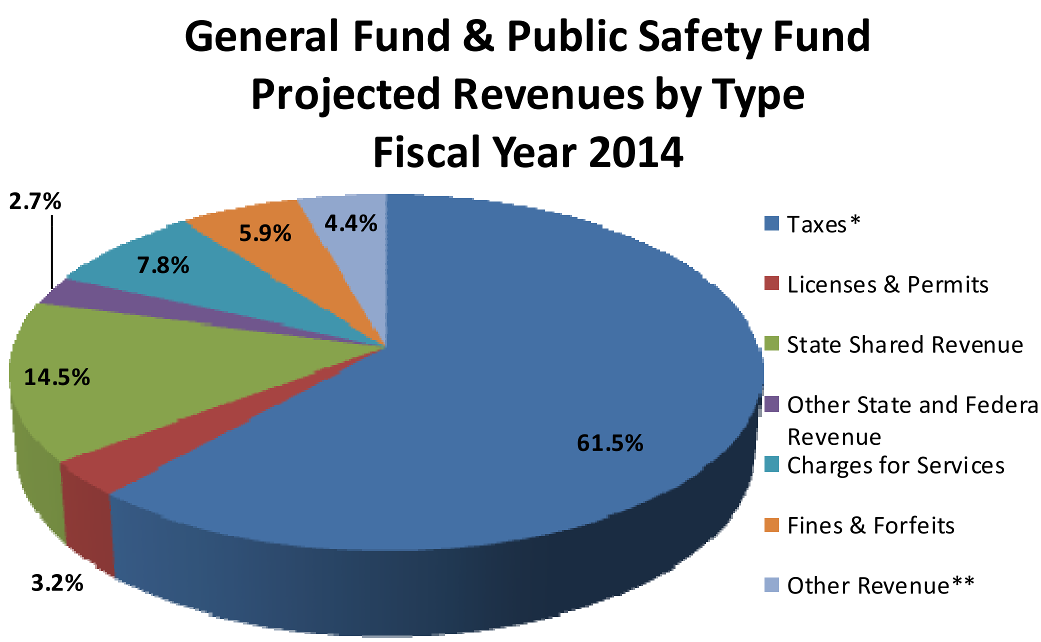
GENERAL FUND AND PUBLIC SAFETY FUND

Revenues

The city's General Fund is the main operating fund for the City of Center Line. The city's Public Safety Fund is the operating fund for the city's Public Safety Department. As the previous section on tax revenues showed, over the next five fiscal years taxable values in the city should rise, although much of the gain will be negated by the personal property tax reforms discussed in the *Significant Factors* section of this report.

Revenues other than tax revenues over the same period are projected to increase mainly because of forecasted increases in state shared revenue, which is projected to increase by just over 3 percent per year from fiscal years 2015 through 2017 before leveling off in fiscal years 2018 and 2019.

The following pie chart illustrates the various types of revenues collected by the city's General Fund as well as each type of revenues' proportion to total General Fund revenues collected.



**Includes the General Operating millage, Public Safety Operating millage, and all related interest, penalties, and administrative fees.*

***Includes insurance reimbursements, bank interest, rental income, and other revenues*

FORECASTED EXPECTATIONS

GENERAL FUND AND PUBLIC SAFETY FUND - CONTINUED

Expenditures

An unfortunate side effect of a recovering economy is increasing costs for operating supplies, services, and commodities. For individuals, businesses, and cities like ours, this can have a staggering impact on the bottom line, increasing prices on everything from operating supplies like vehicle parts, pipes, and paper to larger cost commodities like fuel, oil, electric and natural gas costs. In a recovering economy, wages increase as well, so as the cost of human capital (or labor) rises, those costs are absorbed by the city via increased costs for its labor as well as through increased costs for professional services such as audit and legal fees.

Change in the Michigan consumer price index (CPI) is projected to be as follows for each fiscal year in the forecast period.

	CPI CHANGE
2015	1.6
2016	1.6
2017	1.6
2018	1.8
2019	1.3

In addition to rising costs due to inflation and a recovering economy, the city will also be impacted by significant rising legacy costs. Legacy costs include pension, healthcare, and life insurance benefits now being paid out to former employees who have successfully completed careers with the City of Center Line.

As the chart below shows, the cost of providing these benefits are substantial and represent an ever-increasing portion of our overall annual expenditures as a city.

TOTAL FORECASTED LEGACY COSTS - FISCAL YEARS 2014 THROUGH 2019

	PENSION EXPENSES	HEALTHCARE EXPENSES	TOTAL LEGACY COSTS	PERCENT OF OPERATING EXPENSES*
2014	$ 812,657	$ 1,131,600	$ 1,944,257	28.5%
2015	925,666	1,165,548	2,091,214	29.7%
2016	935,816	1,273,367	2,209,183	30.9%
2017	952,774	1,370,059	2,322,833	31.6%
2018	972,342	1,412,329	2,384,671	31.9%
2019	977,906	1,424,028	2,401,934	31.9%

**Expenses in both the General Fund and Public Safety Fund. General Fund Expenses include all expenses with the exception of the transfers out and contributions to the OPEB Investment Trust.*

FORECASTED EXPECTATIONS

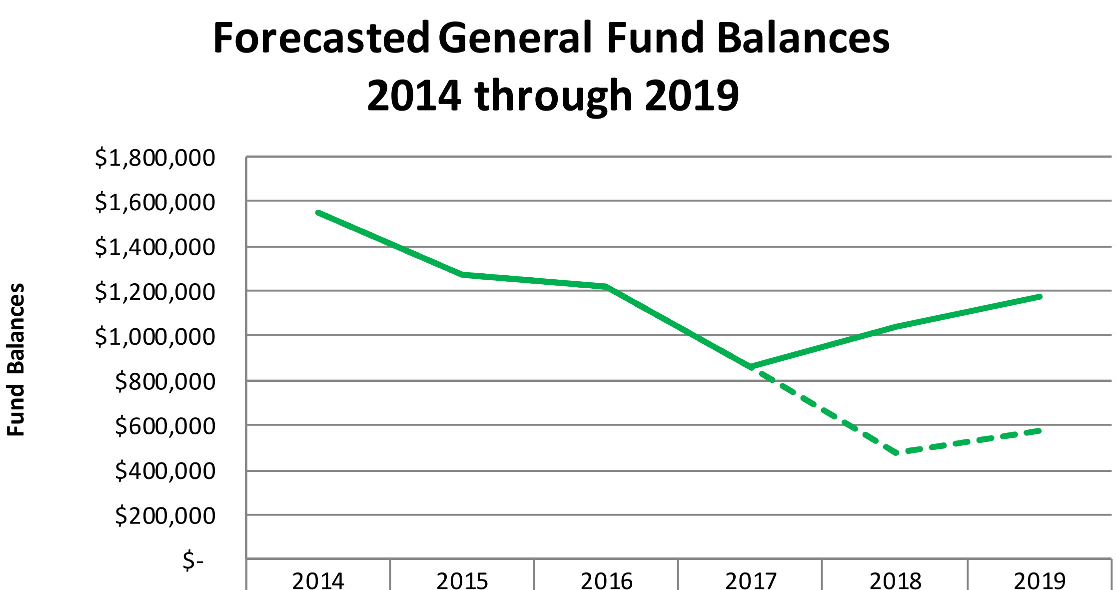
GENERAL FUND AND PUBLIC SAFETY FUND - CONCLUDED

Budget Recommendation for Fiscal Years 2015, 2016, and 2017

Based on the forecast presented to Council, management has instructed the city's department heads to create operating budgets that increase non-labor budget line items by no more than 1.75 percent in fiscal year 2015, 0.50 percent in fiscal year 2016, and 0.60 percent in fiscal year 2017.

Fund Balance

Based on the forecast and the budget recommendation above, the city's fund balance targets for the forecast period are as follows.



	2014	2015	2016	2017	2018	2019
Fund Balance	$1,550,888	$1,271,917	$1,216,934	$858,044	$1,043,756	$1,171,354
FB w/o OPEB	$1,550,888	$1,271,917	$1,216,934	$858,044	$473,105	$572,170

The Public Safety Fund holds no unassigned fund balances and retains only fund balances restricted for postemployment benefits and nonspendable balances.

As planned for when the Other Postemployment Benefits (OPEB) Investment Trust was established on June 30, 2013, the city will stabilize future fiscal years' fund balances by contributing to the OPEB Investment Trust in fiscal years 2014 and 2015 and then withdrawal a portion of those funds beginning in fiscal years 2018 and 2019 in an effort to increase funding of the OPEB liability as well as to keep fund balance targets at recommended levels.

Also shown on the above chart is projected fund balance without OPEB Trust withdrawals. Without OPEB funds to supplement soaring legacy costs in future fiscal years, fund balance would stay positive but would drop well below recommended levels.

FORECASTED EXPECTATIONS

OPEB INVESTMENT TRUST

As of December 31, 2013, the OPEB Investment Trust has assets valued at $2,026,718. The city's General Fund contributes all unassigned fund balance in excess of 20% of annual operating expenses in both the General Fund and the Public Safety Fund to the OPEB Investment Trust on an annual basis. Based on this practice, the city is scheduled to contribute $516,100 in fiscal year 2014 and an additional $185,000 in fiscal year 2015.

Additionally, the city's Water and Sewer Fund contributes the portion of the OPEB Investment Trust's annual required contribution (ARC) attributable to retirees and active employees who serve or did serve in the city's water department, which has been calculated to be 35.3%. As of fiscal year 2014, the amount to be contributed will be $91,508.

Per the actuarial valuation report on the OPEB Investment Trust dated December 31, 2012, the Trust expects to earn approximately 6% per year, net of investment expenses, on the balances held. Based upon the contributions noted above as well as the investment return assumption, the following table forecasts the expected OPEB Investment Trust activity over the forecasted period.

FISCAL YEAR ENDING JUNE 30	BEGINNING BALANCE	CONTRIBUTIONS	DISTRIBUTIONS / WITHDRAWALS*	INVESTMENT EARNINGS @ 6%	ENDING BALANCE
2014	$ 1,871,624	$ 607,608	$ -	$ 112,297	$ 2,591,529
2015	2,591,529	276,508	-	155,492	3,023,529
2016	3,023,529	91,508	-	181,412	3,296,449
2017	3,296,449	91,508	-	197,787	3,585,744
2018	3,585,744	91,508	570,651	215,145	3,321,746
2019	3,321,746	91,508	599,184	199,305	3,013,375
TOTALS	**$ 1,871,624**	**$ 1,250,148**	**$ 1,169,835**	**$ 1,061,438**	**$ 3,013,375**

**All withdrawals are assumed to occur as a lump sum withdrawal at the end of each fiscal year.*

Based on the actuarial assumption for investment earnings at the rate of 6% annually, the Trust will earn $1,061,438 from July 1, 2013 to June 30, 2019, which represents 91 percent of the $1,169,835 scheduled to be withdrawn in fiscal years 2018 and 2019.

Finally, per the OPEB actuarial valuation dated December 31, 2012, the Actuarial Accrued Liability (AAL) is $23,657,948, meaning that as of the date of publishing of this forecast the OPEB Trust has funded 8.6 percent of the AAL. By June 30, 2015, which is the end of the actuarial period under which the current AAL is calculated, the Trust will have funded 12.8 percent of the AAL. While the city has made significant strides in beginning to fund its OPEB liability, there remains a substantial need for further funding of the Trust.

SIGNIFICANT FACTORS AFFECTING THE FORECAST

KEY NATIONAL AND STATE ECONOMIC INDICATORS

Note: Excerpted from the Economic Outlook and Revenue Estimates for Michigan FY2013-14 through FY2015-16 Report

	Calendar 2014 Estimated	% Change from Prior Year	Calendar 2015 Estimated	% Change from Prior Year	Calendar 2016 Estimated	% Change from Prior Year
UNITED STATES						
Real Gross Domestic Product (Billions of 2009 dollars)	$ 16,166.40	2.6%	$ 16,662.40	3.1%	$ 17,218.00	3.3%
Consumer Price Index (1982-84 = 100)	236.6	1.5%	240.6	1.7%	245.3	1.9%
3-month Treasury Bills Interest Rate	0.1%		0.3%		1.0%	
Big-3 Share of Light Vehicle Sales	44.6%		44.7%		44.9%	
MICHIGAN						
Unemployment Rate	8.2%		7.3%		6.4%	
Real Disposable Income (Millions of 1982-84 dollars)	161,512	2.5%	165,799	2.7%	169,870	2.5%
Wage and Salary Income (Millions of current dollars)	204,883	4.0%	213,310	4.1%	222,077	4.1%
Detroit Consumer Price Index (1982-84 = 100)	222.5	1.3%	226.0	1.6%	230.2	1.8%

SIGNIFICANT FACTORS AFFECTING THE FORECAST

PERSONAL PROPERTY TAX REFORM

A significant factor in the five year financial forecast was the matter of Personal Property Tax (PPT) reform. While most agree that PPT Reform needed to occur, local communities have yet again had revenue sources reduced. Under the PPT Reform currently signed into law, beginning with tax year 2014 / city fiscal year 2015, all personal property with true cash values of less than $80,000 will be able to file an affidavit claiming full exemption from personal property taxes. City management is already processing these affidavits and the five year forecast accounts for this reduction in tax revenues.

PPT Reform will be in the news again later this summer when voters go to the polls in August 2014 to vote on a state-wide referendum regarding the Essential Services Assessment (ESA). The ESA was championed by the Michigan Municipal League (MML) as a last second compromise between state legislators and the MML's member communities to "Replace, not Erase" existing local municipality tax revenues.

The ESA, if approved by voters, will allow communities including Center Line to recapture up to 80 percent of lost personal property tax revenue for the purpose of funding essential services, such as the city's Public Safety Department. If the state-wide referendum fails in August 2014, the ESA will not be established, nor will exemptions for industrial personal property scheduled to begin in tax year 2016 / city fiscal year 2017.

While it may appear on the surface to be a wise decision to attempt to vote down the ESA referendum in August, that would be short-sighted… just ask those who voted down the State Emergency Manager Law in the November 2012 general election. Similar to the outcome that saw a more severe law passed to replace the one voted down in the 2012 general election, it is management's opinion that a result more disadvantageous and more costly to local municipalities could be enacted if the ESA was voted down. **For that reason, we strongly recommend voting <u>FOR</u> the Essential Services Assessment Referendum in August 2014.**

Based on MCL 123.1244 (Public Act 406 of 2012), city management has calculated a preliminary ESA figure and used this figure as a replacement revenue for the personal property taxes within the five year forecast. Based on the calculated figure, the city expects to replace approximately 43 percent of projected revenues lost because of PPT Reform. This figure is significantly lower than the 80 percent maximum that can be replaced under the ESA because the city has a dedicated public safety millage, which reduces the maximum level of the ESA replacement revenues.

Ultimately, based upon the result of the August election the city forecast could change substantially.